File

Harvey Woods

JOCKEY®

HARVEY WOODS LIMITED

ANNUAL REPORT 1973

Harvey Woods

Quality hosiery and underwear for all the family and every occasion. Fashion and comfort is featured by these brands:

Kroy wool, hosiery and underwear, luxurious quality with easy care.

HW 420 underwear featuring the quality of combed cotton fortified with 420 nylon for longer wear.

Flexon styled cotton underwear with gentle stretch Nylon for neat fit, and comfort.

JOCKEY®

World famous for quality, fit, and comfort. **JOCKEY** sets the trend in fashion underwear.

JOCKEY, Fits better . . . . Feels better.

STERI-SEPTIC

STERI-SEPTIC is a scientifically prepared formulation which prevents the growth of bacteria, fungi, and mildew. Products treated with **STERI-SEPTIC,** therefore remain fresh, odour free, are more comfortable to the wearer and last longer.

kroy*

Wollen products treated with the famous **KROY** process are completely machine washable and machine dryable. Garments made from **KROY** processed wool maintain their stitch-free elasticity with no matting or felting. They fit better and have a longer more useful life.

TO THE SHAREHOLDERS

Your Directors submit herewith the Annual Report of the Consolidated Operations of your Company for the year ended December 31, 1973.

Earnings

The Net Income for the year of $343,000 compares with a Net Loss in 1972 of $261,000, after provision for depreciation of $160,000 in 1973 and $191,000 in 1972. In connection with income taxes payable your attention is drawn to Note No. 4 to the Consolidated Financial Statements.

1973 Operations

Substantially improved operating results forecast for 1973 were realized as a result of organizational and operational changes, improved material utilization through pattern engineering, increased productivity of operators following a planned training program and a favourable inventory position in relation to improved selling prices.

Your Company is Canada's number one producer of Men's and Boys' quality Underwear and Hosiery; emphasis will continue to be placed in this field to obtain broader distribution and increased public acceptance of Harvey Woods and Jockey Brand products.

1974 Prospects

To date in 1974 orders are ahead of last year and shipments are more than 10% greater. The effect which inflationary forces - particularly increasing operating costs - will have on the Company's performance appears unpredictable.

Every effort is being made to improve efficiency and with this object a capital equipment program is underway in the Underwear Division. Approximately $300,000 (in addition to normal capital expenditures) is being spent on knitting and bleaching equipment and the financing arrangements are explained in Note No. 6 to the Consolidated Financial Statements.

Long Term Debt

The details of the refinancing of the long term debt recently arranged are shown in Note No. 1 to the Consolidated Financial Statements.

Working Capital

Working capital increased $945,000 in the year and at December 31, 1973 stood at $2,379,000. The Consolidated Statement of Working Capital details the source and application of funds.

Subsidiaries

The subsidiary companies showed improved earnings, largely due to increased export sales in the U.S.A. and Europe. Further increases are expected in 1974 barring any sudden change in the current world situation.

General

Your Directors recognize that only through the support and co-operation of all employees were the results for 1973 achieved and they wish to record their appreciation.

On Behalf of the Board of Directors,

J. D. Woods, Chairman.

R. W. Meeke, President.

Toronto, Ontario.
March 29, 1974.

Harvey Woods Limited
(Incorporated under the laws of Ontario)
and subsidiary companies

Consolidated

DECEMBER 31, 1973 (with com

Assets

		in thousands of dollars 1973	1972
Current			
	Cash	$ 4	$ 5
	Accounts receivable	1,963	2,123
	Inventories at the lower of cost and net realizable value	4,476	3,631
	Prepaid expenses	127	225
	Total current assets	6,570	5,984
Fixed-at cost			
	Land	40	40
	Buildings	908	909
	Equipment	3,118	3,075
		4,066	4,024
	Less accumulated depreciation	3,057	2,946
	Total fixed assets	1,009	1,078
Total		$7,579	$7,062

On behalf of the Board Roland W. Meeke, Director — John A. Young, Director

(see accompanying notes to the consolidated financial statements)

lance Sheet

amounts at December 31, 1972)

Liabilities

		in thousands of dollars 1973	1972
Current	Due to bankers - demand loan (note 1)	$2,716	$2,640
	Accounts payable and accrued charges	1,141	930
	Sales and other taxes payable	161	189
	Portion of long term debt due within one year	173	791
	Total current liabilities	4,191	4,550
Long Term	Due to bankers - term loans (note 1)	706	706
	8½% first mortgage bonds, due July 15, 1981 (note 2)	262	296
	8½% second mortgage bonds, due July 15, 1981 (note 2)	432	472
	Other	14	25
		1,414	1,499
	Less payments due within one year included with current liabilities	173	791
	Total long term liabilities	1,241	708
	Deferred taxes	4	5
	Minority shareholders' interest	16	15
Shareholders' equity	Capital (note 3) — Authorized: 500,000 Class A shares of no par value entitled to a fixed cumulative preferential dividend of 40¢ per share per annum; 700,000 Class B shares of no par value		
Issued and fully paid	329,512 Class A shares; 700,000 Class B shares	1,938	1,938
	Retained earnings (Deficit)	189	(154)
		2,127	1,784
Total		$7,579	$7,062

AUDITORS' REPORT
To the Shareholders of Harvey Woods Limited

We have examined the consolidated balance sheet of Harvey Woods Limited as at December 31, 1973 and the consolidated statements of income, retained earnings and working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada,
February 21, 1974.

CLARKSON, GORDON & CO.
Chartered Accountants.

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 1973 (with comparative amounts for 1972)

	1973	1972
	in thousands of dollars	
Sales	$10,986	$10,867
Costs and expenses:		
Cost of sales - excluding depreciation and amortization	7,964	8,415
Marketing, general administration and shipping expenses	2,377	2,387
Depreciation and amortization	160	191
Interest on long term debt	121	121
	10,622	11,114
Net income (loss) before minority interest, income taxes, and extraordinary item	364	(247)
Minority interest in income of subsidiary company	8	2
Net income (loss) before income taxes and extraordinary item	356	(249)
Income taxes (note 4)	143	12
Net income (loss) before extraordinary item	213	(261)
Extraordinary item:		
Reduction in current year's income taxes, resulting from application of prior years' losses	130	
Net income (loss) for the year	$ 343	$ (261)
Income (loss) per Class "B" shares before extraordinary item after allocating annual cumulative dividends in respect to 1973 to Class "A" shares (note 3)	$ .12	$ (.56)
Income (loss) per Class "B" shares after extraordinary item after allocating annual cumulative dividends in respect to 1973 to Class "A" shares (note 3)	$ .30	$ (.56)

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31, 1973 (with comparative amounts for 1972)

	1973	1972
Balance, beginning of year (at debit)	$ (154)	$ 107
Net income (loss)	343	(261)
Balance, end of year (at debit)	$ 189	$ (154)

CONSOLIDATED STATEMENT OF WORKING CAPITAL

For the year ended December 31, 1973 (with comparative amounts for 1972)

	1973	1972
Source of funds:		
Operations	$ 502	$ (65)
Reduction in portion of long term debt due within one year	618	
Increase (decrease) in minority interest in subsidiary company	1	(4)
	$ 1,121	$ (69)
Application of funds:		
Purchase of fixed assets (net)	91	108
Payment of long term debt	85	103
Increase in portion of long term debt due within one year		432
	176	643
Increase (decrease) in working capital	945	(712)
Working capital, beginning of year	1,434	2,146
Working capital, end of year	$ 2,379	$ 1,434

(see accompanying notes to the consolidated financial statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Bank indebtedness

As security for bank indebtedness, the company has given to its bankers an assignment of accounts receivable, security under Section 88 of the Bank Act and a demand debenture for $4,000,000 which is secured by fixed and floating charges. At December 31, 1973 bank indebtedness consisted of a demand loan of $2,715,900 and two term loans in the aggregate amount of $706,000. The term loans have been insured as to repayment to the extent of 90% by the General Adjustment Assistance Board (GAAB) and bear interest as to $535,000 principal amount at a rate of ¾% above the bank's prime rate and as to $171,000 principal amount at a rate of 1¾% above the bank's prime rate.

Subsequent to the year end, the company entered into new financing arrangements with its bankers and GAAB. The term loans, in the total amount of $706,000, at a rate of interest 1½% above the bank's prime rate, will be repaid in 100 equal monthly principal instalments of $7,060 beginning in January, 1974. These new arrangements have been given effect as at December 31, 1973 by including in current liabilities an amount equal to twelve monthly instalments or $84,720.

2. Long-term debt

In addition to term bank loans described in note 1, the long-term debt of the company consists of the following:

(i) $261,900 - First mortgage bonds, issued to the Company's bankers, secured by a first mortgage on the company's lands, buildings, machinery, and equipment and a first floating charge on its other assets. The bonds bear interest at 8½% per annum payable monthly and the loan is repayable by monthly instalments of $2,900.

(ii) $432,448 - A loan made to the company by the Ontario Development Corporation, secured by a second mortgage on the company's lands, buildings, machinery and equipment and a second floating charge on its other assets. This loan, which matures on July 15, 1981, bears interest at 8½% and is repayable by monthly blended payments of principal and interest of approximately $6,400.

The security for the company's demand debentures, referred to in note 1 above, ranks subsequent to the security given in connection with the debt described in this note.

3. Dividends

Cumulative dividends on Class A shares of $7.40 per share ($2,438,390 in the aggregate) are in arrears.

The charter of the company restricts the payment of dividends on Class B shares if there are arrears of dividends on the Class A shares.

4. Income taxes

Taxes on income for the year ended December 31, 1973 in the amount of $143,000 have been reduced by $130,000 by the application of losses incurred in previous years.

At December 31, 1973 losses in the amount of approximately $690,000 are available in varying amounts for carry forward purposes to reduce income taxes otherwise payable during the period 1974 to 1977. In addition, the company has available approximately $630,000 representing depreciation written in the accounts but not claimed for tax purposes for which there is no limitation on the carry forward period.

The potential income tax recoveries, with respect to the above, amounting to approximately $550,000 have not been reflected in the accompanying financial statements. The realization of these recoveries is dependent on the adequacy of profits within the carry forward period allowed for income tax purposes.

5. Remuneration of directors and senior officers

Aggregate direct remuneration paid by the companies during 1973 to directors and senior officers as defined by Section 1(25) of The Business Corporations Act, 1970 amounted to $185,000 (1972 - $157,000).

6. Subsequent events

In addition to the new loan agreements described above in note 1, the company also arranged additional borrowings to finance proposed additional equipment purchases as follows:

(i) a new bank loan, insured by GAAB to the extent of 90%, in the amount of $160,500, with interest at 1½% above the bank's prime rate, repayable in 100 equal monthly principal instalments, commencing on the first day of the month following the final advance of the loan. A chattel mortgage on the new equipment will be given as additional security.

(ii) a new bank loan, in the amount of $160,500, with an interest rate of 10% per annum which rate shall be in effect for the next five years. This loan is subordinated as to principal repayment until July 1, 1982 or such earlier date as all GAAB loans are repaid.

Since December 31, the company has issued to its bankers, as further security for all bank loans, an additional demand debenture for $500,000, secured by fixed and floating charges, ranking equal to the $4,000,000 debenture described in note 1 above.

DIRECTORS	W. D. Bean G. D. Birks N. H. Cruickshank R. W. Meeke J. W. Walker Q.C. J. D. Woods John A. Young
OFFICERS	J. D. Woods *Chairman of the Board* R. W. Meeke *President* John A. Young *Vice President and Secretary-Treasurer*
HEAD OFFICE	18 Vansittart Avenue, Woodstock, Ontario
SALES EXECUTIVE OFFICES	Harvey Woods Division - 70 Crawford Street, Toronto, Ontario Jockey Division - 60 Adelaide Street East, Toronto, Ontario
TRANSFER AGENTS	The Royal Trust Company
AUDITORS	Clarkson, Gordon & Co.
BANKERS	The Toronto-Dominion Bank
COUNSEL	McCarthy & McCarthy
OPERATING LOCATIONS	Toronto: *Kroy Unshrinkable Wools Limited* *Thomson Research Associates Limited* Woodstock: *Hosiery Division, Underwear Division,*
BRANCH SALES OFFICES	Vancouver ▪ Edmonton ▪ Winnipeg ▪ Toronto ▪ Montreal ▪ Quebec
PRODUCTS	Hosiery ▪ Underwear ▪ Lingerie ▪ Sweaters

Harvey Woods

JOCKEY®